GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1079
ANSWERED ON:22.07.2016
Value of Rupee
Pal Shri Jagdambika

Will the Minister of FINANCE be pleased to state:

(a) whether the Indian companies are facing pressure in foreign trade due to fall in the value of Indian rupee;

(b) if so, the details thereof and the reasons for instability of Indian rupee in comparison to dollar;

(c) the steps taken to check fall in the price of rupee and the effects thereof; and

(d) the details of effects of fall in the price of Indian currency on the prices and specific steps taken in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ARJUN RAM MEGHWAL)
(a) & (b) The Indian rupee has depreciated marginally by 0.4 per cent in June 2016 over end March 2016. Theoretically, depreciation of a currency should boost the country's exports, though with a lag, as goods produced by domestic companies become cheaper in the international market, while making imports costlier affecting import oriented companies. The impact of exchange rate depreciation also depends on a set of factors, including elasticity of our exports and imports and exchange rate changes of trading partner and competing countries. In the present scenario, however, global slowdown is the major factor affecting trade performance of Indian companies. While Indian exports fell by 15.6 per cent and imports by 15.1 per cent in 2015-16, recently exports are showing signs of revival with June 2016 export growth being positive at 1.3 per cent and April-June 2016 export growth being less negative at - 2.1 per cent.

The Indian rupee was relatively stable and was one of the best performing currencies vis-Ã -vis other Emerging Market Economies (EMEs) during the period April-December 2015. While the increase in the US interest rate in December 2015 did not have any major impact on the markets, continued global economic uncertainty amidst low growth prospects in advanced economies including the US, economic slowdown in China and deceleration in other EMEs adversely impacted market sentiments and contributed to volatility. The rupee turned volatile and depreciated significantly during January-February 2016, recovered in April 2016 and turned volatile again in May and June in the wake of the uncertainty over the impact of the Brexit vote. However, the rupee recovered in July 2016 so far and was not affected much by the recent Brexit vote.

(c) & (d) The exchange rate policy of the RBI is aimed at managing excessive volatility and maintaining orderly conditions without having any fixed target or band for the exchange rate. The strong foreign exchange reserves provides a buffer against any temporary episodes of volatility. The Government and the RBI are continuously monitoring the evolving situation on the exchange rate front and are taking appropriate steps to bring stability in case of unwarranted increase in forex market volatility.

As regards impact on prices, the effect of depreciation is marginal as it impacts mainly imported items. WPI headline Inflation was in negative territory at − 2.5 per cent in 2015-16 and was low at 1.1 per cent in 2016-17 (Apr-June). WPI food inflation was also low in 2015-16 but increased to 7.3 per cent in 2016-17 (Apr-June). The Government has taken a number of fiscal and administrative measures to curb inflation, in particular, food inflation, which include, increased allocation of Rs 900 crore for Price Stabilization Fund in the budget 2016-17 to check volatility of prices of essential commodities, in particular of pulses; decision to create buffer stock of Kharif and Rabi pulses through domestic procurement and imports; announcing higher Minimum Support Prices so as to incentivize production; taking necessary steps to maintain sufficient stocks of sugar in the country like imposing 20 per cent duty on export of sugar and empowering state governments to impose stockholding limits on traders to ensure availability of sugar at reasonable prices.
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